

**NICE COMMUNITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the NICE Community School District, Ishpeming, Michigan, as of and for the year ended June 30, 2006 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and aggregate remaining fund information of the NICE Community School District, Ishpeming, Michigan as of June 30, 2006, and the respective changes in financial position where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 33 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information and express no opinion on it.

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise NICE Community Schools District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 23, 2006

NICE Community School District

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of NICE Community School District financial performance provides an overview of the School District's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- Net assets for NICE Community School District as a whole were reported at \$2,044,681. Net assets are comprised of 100% governmental activities.
- During the year, NICE Community School District expenses were \$11,574,034 while revenues from all sources totaled \$12,162,866, resulting in an increase in net assets of \$588,832.
- The general fund reported an increase of \$391,129 before other financing sources (uses) and a total decrease of \$(142,952). This is \$191,504 higher than the forecasted decrease of \$(334,456). This was a result of revenues being \$101,986 higher than forecasted, expenses being \$142,649 lower than forecasted and transfers out being \$53,131 higher than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand NICE Community School District financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the NICE Community School District as a whole begins on page 7. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's Discussion and Analysis (Unaudited) (Continued)

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 13 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2006:

Table 1
Net Assets

	Governmental Activities-2006	Governmental Activities-2005
Current and other assets	\$4,784,879	\$4,349,650
Capital assets, net	8,674,604	8,720,106
Total Assets	<u>13,459,483</u>	<u>13,069,756</u>
Current liabilities	3,992,009	3,583,698
Long-term liabilities	7,422,793	8,030,209
Total Liabilities	<u>11,414,802</u>	<u>11,613,907</u>
Net Assets:		
Invested in capital assets, net of related debt	1,143,936	525,376
Restricted	770,789	404,030
Unrestricted	129,956	526,443
Total Net Assets	<u>\$2,044,681</u>	<u>\$1,455,849</u>

The School District's net assets were \$2,044,681 at June 30, 2006. Capital assets, net of related debt totaling \$1,143,936, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$129,956 was unrestricted.

The \$129,956 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2).

Table 2
Changes in Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues:		
Program revenues:		
Charges for services	\$407,509	\$388,678
Operating grants and contributions	1,379,360	1,375,233
General revenues:		
Property taxes	2,727,099	2,349,327
State sources not restricted to specific program	7,459,582	7,463,235
Contributions and other unrestricted grants	14,500	13,000

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities – 2006	Governmental Activities – 2005
Investment earnings	\$84,609	\$41,713
Miscellaneous	90,207	86,361
Total Revenues	<u>12,162,866</u>	<u>11,717,547</u>
Program Expenses:		
Instruction	7,101,923	6,727,168
Supporting services	3,223,029	3,104,807
Community services	936	1,574
Food service activities	306,500	292,188
Athletic activities	234,569	224,332
Depreciation – unallocated	356,106	353,322
Interest on long-term debt	350,971	336,022
Total Expenses	<u>11,574,034</u>	<u>11,039,413</u>
Increase (decrease) in net assets	588,832	678,134
Net assets, beginning	1,455,849	777,715
Net Assets, Ending	<u>\$2,044,681</u>	<u>\$1,455,849</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$11,574,034. Certain activities were partially funded from those who benefited from the programs \$407,509 or by other governments and organizations that subsidized certain programs with grants and categoricals \$1,379,360. We paid for the remaining "public benefit" portion of our governmental activities with \$2,727,099 in taxes, \$7,459,582 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$588,832.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$7,101,923	\$5,711,291
Supporting services	3,223,029	3,215,533
Food service activities	306,500	10,128
Athletic activities	234,569	142,200
Totals	<u>\$10,866,021</u>	<u>\$9,079,152</u>

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$1,529,989 an increase of \$42,061 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$8,674,604 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	Governmental Activities – 2006	Governmental Activities – 2005
Land	\$41,000	\$41,000
Land improvements	520,422	508,998
Buildings	12,651,906	12,438,255
Machinery and equipment	766,136	680,627
Vehicles	1,179,256	1,179,256
	15,158,740	14,848,136
Less accumulated depreciation	(6,484,136)	(6,128,030)
Totals	\$8,674,604	\$8,720,106

This year's additions of \$310,604 included various land and building improvements financed through sinking fund millage. We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$7,674,712 in bonds and installment loans outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities – 2006	Governmental Activities – 2005
General obligation bonds	\$7,295,000	\$7,875,000
Installment loans	235,668	319,730
Durant debt	144,044	155,852
Totals	<u>\$7,674,712</u>	<u>\$8,350,582</u>

There was one new installment loan issued this year. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2007 budget.

Enrollments are projected, as well as contract cost for two years. There are currently no major economic factors in our area that would dramatically affect our district in revenues or expenditures.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the NICE Community School District, 300 Westwood Drive, Ishpeming, Michigan, 49849.

NICE Community School District
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Component Unit</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,165,866	\$ 247,726
Investments	1,728,710	-
Accounts receivable	1,874,481	97,666
Prepaid expenses	15,822	-
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	4,784,879	345,392
	<hr/>	<hr/>
Noncurrent assets:		
Land	41,000	-
Other capital assets	15,117,740	80,349
Less accumulated depreciation	(6,484,136)	(49,920)
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	8,674,604	30,429
	<hr/>	<hr/>
TOTAL ASSETS	13,459,483	375,821
	<hr/>	<hr/>
LIABILITIES:		
Current liabilities:		
Accounts payable	460,852	593
Accrued liabilities	776,226	65,756
Accrued interest	43,625	-
Deferred revenue	17,812	-
State anticipation note	2,000,000	-
Current portion of long-term debt obligations	693,494	-
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	3,992,009	66,349
	<hr/>	<hr/>
Noncurrent liabilities:		
Compensated absences	149,075	-
Early retirement	292,500	-
Bonds payable	7,439,044	-
Installment loans payable	235,668	-
Current portion of long-term debt obligations	(693,494)	-
	<hr/>	<hr/>
TOTAL NONCURRENT LIABILITIES	7,422,793	-
	<hr/>	<hr/>
TOTAL LIABILITIES	11,414,802	66,349
	<hr/>	<hr/>
NET ASSETS:		
Invested in capital assets net of related debt	1,143,936	30,429
Restricted:		
Debt Service	721,886	-
Scholarships endowments	48,903	-
Unrestricted	129,956	279,043
	<hr/>	<hr/>
TOTAL NET ASSETS	<u>\$ 2,044,681</u>	<u>\$ 309,472</u>

See Notes to Financial Statements.

**NICE Community School District
Statement of Activities
For the Year Ended June 30, 2006**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Component Unit
Governmental Activities:					
Instruction	\$ 7,101,923	\$ 166,976	\$ 1,223,656	\$ (5,711,291)	
Supporting services	3,223,029	974	6,522	(3,215,533)	
Community services	936	-	-	(936)	
Food service activities	306,500	152,098	144,274	(10,128)	
Athletic activities	234,569	87,461	4,908	(142,200)	
Interest on retirement of debt	350,971	-	-	(350,971)	
Depreciation- unallocated	356,106	-	-	(356,106)	
TOTAL GOVERNMENTAL ACTIVITIES	11,574,034	407,509	1,379,360	(9,787,165)	
Component Unit:					
Instruction and instructional support	\$ 378,155	68,539	297,580		\$ (12,036)
General revenues:					
Taxes					
Property taxes, levied for general purposes				1,356,720	-
Property taxes, levied for debt services and sinking fund				1,370,379	-
State Aid not restricted to specific purposes				7,459,582	-
Contributions and other unrestricted grants				14,500	14,574
Interest and investment earnings				84,609	7,701
Miscellaneous				90,207	1,311
TOTAL GENERAL REVENUES				10,375,997	23,586
CHANGES IN NET ASSETS				588,832	11,550
Net Assets, July 1				1,455,849	297,922
NET ASSETS, JUNE 30				\$ 2,044,681	\$ 309,472

See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Balance Sheet
June 30, 2006**

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total
ASSETS:				
Cash and cash equivalents	\$ 569,731	\$ 324,512	\$ 271,623	\$ 1,165,866
Investments	1,519,165	166,837	42,708	1,728,710
Accounts receivable	1,850,501	15,310	8,670	1,874,481
Due from other funds	38,747	-	-	38,747
Prepaid expenditures	15,822	-	-	15,822
TOTAL ASSETS	\$ 3,993,966	\$ 506,659	\$ 323,001	\$ 4,823,626
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 456,566	\$ 711	\$ 3,575	\$ 460,852
Accrued liabilities	776,226	-	-	776,226
Due to other funds	-	-	38,747	38,747
State aid notes payable	2,000,000	-	-	2,000,000
Deferred revenue	17,812	-	-	17,812
TOTAL LIABILITIES	3,250,604	711	42,322	3,293,637
FUND BALANCES:				
Reserved for:				
Retirement of debt	-	505,948	215,938	721,886
Scholarships and endowments	-	-	48,903	48,903
Capital projects	-	-	-	-
Unreserved	743,362	-	15,838	759,200
TOTAL FUND BALANCES	743,362	505,948	280,679	1,529,989
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,993,966	\$ 506,659	\$ 323,001	\$ 4,823,626

See Notes to Financial Statements.

NICE Community School District
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total Fund Balances for Governmental Funds	\$	1,529,989
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

	Cost of capital assets	15,158,740	
	Accumulated depreciation	<u>(6,484,136)</u>	
			8,674,604

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Compensated absences	149,075	
Early retirement	292,500	
Bonds payable	7,439,044	
Installment loans	235,668	
Accrued interest	<u>43,625</u>	
		(8,159,912)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>2,044,681</u></u>
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See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006**

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total
REVENUES:				
Property taxes	\$ 1,320,719	\$ 956,089	\$ 414,290	\$ 2,691,098
Other local sources	162,116	37,917	256,767	456,800
State sources	8,411,847	17,131	16,384	8,445,362
Federal sources	260,782	-	127,890	388,672
Other sources	166,976	-	4,908	171,884
TOTAL REVENUES	<u>10,322,440</u>	<u>1,011,137</u>	<u>820,239</u>	<u>12,153,816</u>
EXPENDITURES:				
Current:				
Instruction	6,517,542		-	6,517,542
Supporting services	3,223,029		541,069	3,764,098
Community services	-		500	500
Debt Service:				
Principal	55,800	591,808	28,262	675,870
Interest and fees	73,782	270,337	9,333	353,452
Capital outlay	61,158		346,818	407,976
Other	-		436	436
TOTAL EXPENDITURES	<u>9,931,311</u>	<u>862,145</u>	<u>926,418</u>	<u>11,719,874</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>391,129</u>	<u>148,992</u>	<u>(106,179)</u>	<u>433,942</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	-		-	-
Insurance recoveries	9,050		-	9,050
Transfers from other funds	-		142,200	142,200
Transfers to local districts	(400,931)		-	(400,931)
Transfers to other funds	(142,200)		-	(142,200)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(534,081)</u>	<u>-</u>	<u>142,200</u>	<u>(391,881)</u>
NET CHANGE IN FUND BALANCES	<u>(142,952)</u>	<u>148,992</u>	<u>36,021</u>	<u>42,061</u>
Fund Balance, July 1	<u>886,314</u>	<u>356,956</u>	<u>244,658</u>	<u>1,487,928</u>
FUND BALANCE, JUNE 30	<u><u>\$ 743,362</u></u>	<u><u>\$ 505,948</u></u>	<u><u>\$ 280,679</u></u>	<u><u>\$ 1,529,989</u></u>

See Notes to Financial Statements.

NICE Community School District
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	42,061
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

	Depreciation expense	356,106	
	Capital outlays	<u>(310,604)</u>	(45,502)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

675,870

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(86,078)

Interest on long-term debt is recorded as an expenditure in the funds when it due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the net amount of accrued interest recognized in the statement of activities.

2,481

Change in Net Assets of Governmental Activities

	\$	<u>588,832</u>
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See Notes to Financial Statements.

NICE Community School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	Agency Fund
	<hr/>
ASSETS:	
Cash and equivalents	\$ 65,243
	<hr/>
TOTAL ASSETS	\$ 65,243
	<hr/> <hr/>
LIABILITIES:	
Due to groups, organizations and activities	\$ 65,243
	<hr/>
TOTAL LIABILITIES	\$ 65,243
	<hr/> <hr/>

See Notes to Financial Statements.

NICE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the NICE Community School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

The District is a local school district as defined by Michigan law that operates under a locally elected seven member Board form of government, and that provides elementary and secondary education and related support services to the residents of National Mine, Ishpeming, Champion, Ely, Tilden, and Humboldt Townships in Marquette County and Spurr Township in Baraga County.

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, it has been determined that the Community Education Division of the Ishpeming, Negaunee, and NICE Community School Districts is a discretely presented component unit of NICE Community School District due to its financial interdependency. No other entity meets the criteria to be considered a component unit of the District nor is the District a component unit of another entity. The financial statements of the Community Education Division are not separately presented.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund and the Debt Service Fund as its major governmental funds in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service, Scholarship and Athletics Funds.

Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – The Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Agency Fund – The Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a.** All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

State Anticipation Note

The District issued notes through the Michigan Municipal Bond Authority for cash flow purposes. The District has pledged a portion of their state aid to repay the principal and interest on the notes. Furthermore, the District has irrevocably pledged its full faith and credit in case of the insufficiency of the pledged state aid.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes

Property taxes are levied on December 1, on behalf of the District by various taxing units and are payable without penalty by July 1 and September 30. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The District follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. All funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2006, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$1,165,866	\$65,243	\$1,231,109
Investments	1,728,710	-	1,728,710
	<u>\$2,894,576</u>	<u>\$65,243</u>	<u>\$2,959,819</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$1,361,301 of the District's bank balance of \$1,464,947 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2006, the District had the following investments.

Investment Type	Fair Value	Investment Maturities Less than 1 year
Michigan Liquid Asset Fund – Mutual Funds	\$1,686,002	\$1,686,002
Mutual Funds	42,708	42,708
	<u>\$1,728,710</u>	<u>\$1,728,710</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The District's investments are in accordance with statutory authority.

NOTE C – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved.

The amounts of interfund receivables and payables as of June 30, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$38,747	Hot Lunch Athletics	\$37,720 1,027
Total	<u>\$38,747</u>	Total	<u>\$38,747</u>

The amounts transferred to and from individual funds for the year ended June 30, 2006 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Athletics	<u>\$142,200</u>	General	<u>\$142,200</u>

NOTE D – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$41,000	\$-	\$-	\$41,000
Capital assets being depreciated:				
Land improvements	508,998	\$11,444	-	520,422
Buildings and additions	12,438,255	213,651	-	12,651,906
Machinery and equipment	680,627	85,509	-	766,136
Vehicles	1,179,256	-	-	1,179,256
Total Capital Assets	<u>14,848,136</u>	<u>310,604</u>	<u>-</u>	<u>15,158,740</u>
Less accumulated depreciation:				
Land improvements	464,237	14,965	-	479,202
Buildings and additions	4,275,822	248,765	-	4,516,587
Machinery and equipment	384,007	39,903	-	434,664
Vehicles	1,003,964	49,720	-	1,053,683
Total Accumulated Depreciation	<u>6,128,030</u>	<u>353,353</u>	<u>-</u>	<u>6,484,136</u>
CAPITAL ASSETS, NET	<u>\$8,720,106</u>	<u>\$(42,749)</u>	<u>\$-</u>	<u>8,674,604</u>

Depreciation expense charged to governmental activities was \$356,106.

NOTE E – SHORT-TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2006 is as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Short-term debt:				
State anticipation note, 2004-2005	\$1,800,000	\$-	\$1,800,000	\$-
State anticipation note, 2005-2006	-	\$2,000,000	-	\$2,000,000
TOTAL	<u>\$1,800,000</u>	<u>\$2,000,000</u>	<u>\$1,800,000</u>	<u>\$2,000,000</u>

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District offers an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days paid at a rate based upon the appropriate union contract. The sick leave liability has been calculated in accordance with GASB #16.

As of June 30, 2006, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Early Retirement	\$292,500
Sick Leave	149,075
TOTAL	\$441,575

NOTE G – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2006:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
2003 Refunding Bonds	\$7,875,000	\$-	\$580,000	\$7,295,000
School Improvement Bonds, Series 1998	155,852	-	11,808	144,044
Installment Loans payable	319,730	-	55,800	235,668
Compensated absences	167,997	-	18,922	149,075
Early retirement	187,500	150,000	45,000	292,500
TOTAL	\$8,706,079	\$150,000	\$739,792	\$8,116,287

Long-term debt at June 30, 2006 consists of the following:

The District issued \$8,200,000 in general obligation bonds for the purpose of an advance refunding of the 1995 School Building & Site Bonds that were used for the construction of Aspen Ridge School. Portions of the refunding bonds, with interest rates that range from 2.00% to 4.05%, are redeemed annually beginning on May 1, 2003. Semiannual interest payments are paid on November 1 and May 1 of each year on the outstanding amount of the bonds. The remaining bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2014 are subject to redemption at the option of the District. A schedule of the District's remaining bond repayment requirements are as follows:

**2003 Refunding Bonds
June 30, 2006**

	November 1	May 1		Total
	Interest	Interest	Principal	
2006-2007	\$125,657	\$125,657	\$595,000	\$846,314
2007-2008	118,219	118,219	585,000	821,438
2008-2009	109,444	109,444	575,000	793,888
2009-2010	100,819	100,819	565,000	766,638
2010-2011	91,638	91,638	585,000	768,276
2012-2016	309,734	309,734	2,795,000	3,414,468
2017-2021	62,725	62,275	1,595,000	1,720,450
	\$918,236	\$918,236	\$7,295,000	\$9,131,472

NOTE G – LONG-TERM DEBT (Continued):

**School Improvement Bonds
Series 1998
June 30, 2006**

	May 1		Total
	Interest	Principal	
2005-2006	\$4,760	\$12,367	\$17,127
2006-2007	4,172	12,959	17,131
2007-2008	3,555	13,577	17,132
2008-2009	2,908	14,222	17,130
2009-2010	2,231	14,900	17,131
2011-2015	21,951	76,019	97,970
	<u>\$39,577</u>	<u>\$144,044</u>	<u>\$183,621</u>

The School Improvement Bonds, Series 1998 (\$487,900) dated November 24, 1998 mature annually on May 15, 2005 with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan.

INSTALLMENT LOANS

The District entered into an installment purchase agreement to refinance the construction of a bus garage. The loan agreement dated November 20, 2001 at an original amount of \$268,694 bears a variable interest rate of 2.00% below prime. The loan, which is secured by a bus garage, bears an interest rate of 3.25% as of June 30, 2006, and is payable in annual installments of \$34,398, with the unpaid principal and related interest due on November 2, 2011. The outstanding balance at June 30, 2006 is \$160,544.

The District entered into an installment purchase agreement to finance the purchase of two buses. The loan agreement dated October 1, 2003 at an original amount of \$100,000, bears an interest rate of 3.65% and is payable in annual installments of \$25,000 including interest, maturing May 1, 2007. The outstanding balance at June 30, 2006 is \$25,000.

The District entered into an installment purchase agreement to finance the purchase of seventy personal computers and related equipment. The loan agreement, dated October 1, 2003 at an original amount of \$60,000, bears an interest rate of 3.65% and is payable in annual installments of \$15,000 including interest, maturing May 1, 2007. The outstanding balance at June 30, 2006 is \$15,000.

The District entered into an installment lease purchase agreement to finance the purchase of computer classroom equipment. The lease agreement dated March 31, 2005 at an original amount of \$70,420 bears an interest rate of 7.257% and is payable in annual installments of \$19,496 including interest, maturing March 31, 2008. The outstanding balance at June 30, 2006 is \$35,124.

NOTE G – LONG-TERM DEBT (Continued):

As of June 30, 2006 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2006-2007	\$693,494	\$265,301	\$958,795
2007-2008	646,264	246,199	892,463
2008-2009	619,685	225,734	845,419
2009-2010	611,341	206,826	818,167
2010-2011	637,909	187,018	824,927
2011-2016	2,871,019	641,419	3,512,438
2016-2021	1,595,000	126,448	1,721,448
	<u>\$7,674,712</u>	<u>\$1,898,944</u>	<u>9,573,656</u>
Employer Benefits Payable			441,575
TOTALS			<u>\$10,015,231</u>

NOTE H – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

Debt Service Funds - The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

Scholarship Funds - The resources of the Scholarship Funds have been accumulated from private contributions for the specific purpose of granting scholarships to students of the District. The funds are reserved for these purposes.

NOTE I – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2005 - August 2006. The local revenue is recognized as outlined in Note A – Property Taxes.

NOTE J – PROPERTY TAXES:

The taxable value of real and personal property, which represents approximately 50% of the estimated current value, located in the District for the 2005 taxable year, totaled \$159,327,526 (consisting of \$86,742,972 for Homestead and \$72,584,554 for Non-Homestead). The tax levy for the year was based on a rate of 18.00 mills on the non-homestead property (one mill is equal to \$1.00 per \$1,000 of taxable value) and is remitted to the District's general fund by the taxing unit.

NOTE K – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2006:

	<u>Excess Expenditures</u>
Special Revenue Funds:	
Food Service Activities	\$18,395
Athletic Activities	9,529
Capital Projects	6,349

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$1,114,767 which consisted of \$952,193 from the District and \$162,574 from employees electing the MIP option. These represent approximately 16% and 3% of covered payroll, respectively. The District's aggregate contributions to the MPERS plan for the years ended June 30, 2005, and 2004 were \$1,012,697 and \$989,319, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$5,950,000 and the District's total payroll was approximately \$6,207,000.

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

Other Post-Employment Benefits

In addition to pension benefits, MPSERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE M – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE N – ECONOMIC DEPENDENCY:

The School District receives approximately 75 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of NICE Community School District.

NOTE O – SINKING FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE P – SINGLE AUDIT:

The District's audited financial statements report a total of \$397,519 in federal expenditures. As this amount is less than the single audit threshold of \$500,000, the District is therefore not required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

**NICE Community School District
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Property taxes	\$ 1,281,000	\$ 1,281,000	\$ 1,320,719	\$ -	\$ 39,719
Other local sources	86,500	126,000	162,116	39,500	36,116
State sources	8,311,369	8,394,095	8,411,847	82,726	17,752
Federal sources	323,930	269,359	260,782	(54,571)	(8,577)
Other sources	148,000	150,000	166,976	2,000	16,976
TOTAL REVENUES	10,150,799	10,220,454	10,322,440	69,655	101,986
EXPENDITURES:					
Current:					
Instruction	6,613,799	6,613,340	6,517,542	459	95,798
Supporting services	5,295,959	3,283,840	3,223,029	2,012,119	60,811
Debt service:					
Principal	-	59,496	55,800	(59,496)	3,696
Interest and fees	-	49,732	73,782	(49,732)	(24,050)
Capital outlay	-	67,552	61,158	(67,552)	6,394
TOTAL EXPENDITURES	11,909,758	10,073,960	9,931,311	1,835,798	142,649
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(1,758,959)	146,494	391,129	1,905,453	244,635
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	1,800,000	-	-	(1,800,000)	-
Insurance recoveries	9,500	9,050	9,050	(450)	-
Transfers from other funds	-	-	-	-	-
Transfer to local districts	(345,000)	(345,000)	(400,931)	-	(55,931)
Transfers to other funds	(140,000)	(145,000)	(142,200)	(5,000)	2,800
TOTAL OTHER FINANCING SOURCES (USES)	1,324,500	(480,950)	(534,081)	(1,805,450)	(53,131)
NET CHANGE IN FUND BALANCE	(434,459)	(334,456)	(142,952)	100,003	191,504
Fund balance, July 1	886,314	886,314	886,314	-	-
FUND BALANCE, JUNE 30	\$ 451,855	\$ 551,858	\$ 743,362	\$ 100,003	\$ 191,504

OTHER SUPPLEMENTAL INFORMATION

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal Sources:			
Adult education	\$ 40,000	\$ 29,600	\$ (10,400)
Title I	115,636	115,636	-
Title V	5,535	5,535	-
Vocational education/Title II	54,367	54,367	-
Other grants received through MARESA	53,821	55,644	1,823
Total Federal Sources	269,359	260,782	(8,577)
State Sources:			
State school aid - unrestricted	7,443,000	7,442,451	(549)
Restricted:			
Durant	29,873	29,873	-
At Risk	24,334	6,522	(17,812)
Special education	162,744	162,951	207
Adult education	71,000	73,475	2,475
Vocational education	220,000	253,350	33,350
Golden Apple	35,000	36,376	1,376
Other state grants	408,144	406,849	(1,295)
Total State Sources	8,394,095	8,411,847	17,752
Local Sources:			
Property tax levy	1,281,000	1,320,719	39,719
Commercial forest	25,000	36,001	11,001
Income from investments	55,000	62,395	7,395
Other local revenue	46,000	63,720	17,720
Total Local Sources	1,407,000	1,482,835	75,835
Other Governmental Units:			
Transfers from other governmental units	150,000	166,976	16,976
Total Other Governmental Units	150,000	166,976	16,976
TOTAL REVENUES	10,220,454	10,322,440	101,986
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	1,386,950	1,357,545	29,405
Fringe benefits	835,343	814,837	20,506
Supplies and materials	66,334	51,232	15,102
Other	500	1,325	(825)
Total Elementary	2,289,127	2,224,939	64,188
Middle School:			
Salaries	696,000	681,695	14,305
Fringe benefits	349,000	345,675	3,325
Supplies and materials	30,000	30,229	(229)
Total Middle School	1,075,000	1,057,599	17,401

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
High School:			
Salaries	\$ 982,000	\$ 990,022	\$ (8,022)
Fringe benefits	472,500	464,879	7,621
Purchased services	5,000	5,128	(128)
Supplies and materials	53,000	52,010	990
Other	59,000	58,653	347
Total High School	1,571,500	1,570,692	808
Drivers Education:			
Salaries	13,500	10,557	2,943
Fringe benefits	3,285	1,720	1,565
Other	2,500	2,830	(330)
Total Drivers Education	19,285	15,107	4,178
Special Education:			
Salaries	734,700	733,082	1,618
Fringe benefits	394,695	381,790	12,905
Purchased services	11,000	8,057	2,943
Supplies and materials	9,580	12,195	(2,615)
Other	24,000	15,537	8,463
Total Special Education	1,173,975	1,150,661	23,314
Title I:			
Salaries	110,267	107,877	2,390
Fringe benefits	32,500	38,547	(6,047)
Purchased services	18,213	17,778	435
Supplies and materials	7,223	8,168	(945)
Total Title I	168,203	172,370	(4,167)
Vocational Education:			
Salaries	181,600	184,650	(3,050)
Fringe benefits	95,650	95,390	260
Purchased services	2,200	8,312	(6,112)
Supplies and materials	36,800	37,822	(1,022)
Total Vocational Education	316,250	326,174	(9,924)
TOTAL INSTRUCTION	6,613,340	6,517,542	95,798
Supporting Services:			
At Risk:			
Supplies and materials	-	1,015	(1,015)
Total At Risk	-	1,015	(1,015)

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Counselor:			
Salaries	\$ 153,900	\$ 143,849	\$ 10,051
Fringe benefits	72,200	74,416	(2,216)
Purchased services	-	142	(142)
Supplies and materials	1,000	1,000	-
Total Counselor	227,100	219,407	7,693
Nurse:			
Salaries	32,000	31,828	172
Fringe benefits	6,039	8,506	(2,467)
Purchased services	1,300	862	438
Other	2,300	1,715	585
Total Nurse	41,639	42,911	(1,272)
Social Worker:			
Salaries	61,550	61,549	1
Fringe benefits	30,300	30,166	134
Total Social Worker	91,850	91,715	135
Library:			
Salaries	82,250	81,669	581
Fringe benefits	33,400	34,978	(1,578)
Supplies and materials	12,950	14,963	(2,013)
Total Library	128,600	131,610	(3,010)
Tech Director:			
Salaries	105,000	104,356	644
Fringe benefits	58,700	55,966	2,734
Purchased services	2,000	-	2,000
Supplies and materials	25,000	29,365	(4,365)
Total Tech Director	190,700	189,687	1,013
Special Services:			
Salaries	12,500	12,840	(340)
Fringe benefits	9,600	8,805	795
Total Special Services	22,100	21,645	455
Board of Education:			
Salaries	4,100	4,095	5
Purchased services	25,160	22,637	2,523
Supplies and materials	4,800	6,456	(1,656)
Total Board of Education	34,060	33,188	872

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Superintendent:			
Salaries	\$ 173,237	\$ 174,032	\$ (795)
Fringe benefits	81,650	81,465	185
Purchased services	9,600	9,107	493
Supplies and materials	15,000	14,913	87
Other	4,000	3,007	993
Total Superintendent	<u>283,487</u>	<u>282,524</u>	<u>963</u>
Principal			
Salaries	340,266	342,128	(1,862)
Fringe benefits	159,395	161,530	(2,135)
Purchased services	-	351	(351)
Supplies and materials	20,800	20,704	96
Total Principal	<u>520,461</u>	<u>524,713</u>	<u>(4,252)</u>
Business Manager:			
Fringe benefits	4,330	4,219	111
Purchased services	66,248	65,257	991
Other	2,505	1,586	919
Total Business Manager	<u>73,083</u>	<u>71,062</u>	<u>2,021</u>
Operations & Maintenance:			
Salaries	317,500	319,902	(2,402)
Fringe benefits	175,000	173,151	1,849
Purchased services	453,539	442,444	11,095
Supplies and materials	56,000	53,742	2,258
Other	2,500	2,553	(53)
Total Operations & Maintenance	<u>1,004,539</u>	<u>991,792</u>	<u>12,747</u>
Noon Duty:			
Salaries	16,800	14,677	2,123
Fringe benefits	4,050	3,502	548
Total Noon Duty	<u>20,850</u>	<u>18,179</u>	<u>2,671</u>
Transportation:			
Salaries	320,621	307,512	13,109
Fringe benefits	143,900	139,780	4,120
Purchased services	15,650	12,635	3,015
Supplies and materials	126,500	109,413	17,087
Other	19,500	13,064	6,436
Total Transportation	<u>626,171</u>	<u>582,404</u>	<u>43,767</u>

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Other Supporting Services:			
Other	\$ 19,200	\$ 21,177	\$ (1,977)
Total Other Supporting Services	19,200	21,177	(1,977)
TOTAL SUPPORTING SERVICES	3,283,840	3,223,029	60,811
Debt Service:			
Principal	59,496	55,800	3,696
Interest and fees	49,732	73,782	(24,050)
Total Debt Service	109,228	129,582	(20,354)
Capital Outlay	67,552	61,158	6,394
TOTAL EXPENDITURES	10,073,960	9,931,311	142,649
EXCESS REVENUES (EXPENDITURES)	146,494	391,129	244,635
Other Financing Sources (Uses):			
Proceeds from borrowing			-
Insurance recoveries	9,050	9,050	-
Transfers in			-
Transfers out to local districts	(345,000)	(400,931)	(55,931)
Transfers out	(145,000)	(142,200)	2,800
TOTAL OTHER FINANCING SOURCES (USES)	(480,950)	(534,081)	(53,131)
NET CHANGE IN FUND BALANCE	(334,456)	(142,952)	191,504
Fund Balance, July 1	886,314	886,314	-
FUND BALANCE, JUNE 30	\$ 551,858	\$ 743,362	\$ 191,504

**NICE Community School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006**

	Special Revenue Funds	Capital Projects Fund	Total
ASSETS:			
Cash and equivalents	\$ 60,788	\$ 210,835	\$ 271,623
Investments	42,708	-	42,708
Accounts receivable	-	8,670	8,670
TOTAL ASSETS	<u>\$ 103,496</u>	<u>\$ 219,505</u>	<u>\$ 323,001</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 8	\$ 3,567	\$ 3,575
Due to other funds	38,747	-	38,747
TOTAL LIABILITIES	<u>38,755</u>	<u>3,567</u>	<u>42,322</u>
FUND BALANCES:			
Reserved for:			
Debt service	-	215,938	215,938
Scholarships and endowments	48,903	-	48,903
Capital projects	-	-	-
Unreserved	15,838	-	15,838
TOTAL FUND BALANCES	<u>64,741</u>	<u>215,938</u>	<u>280,679</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 103,496</u>	<u>\$ 219,505</u>	<u>\$ 323,001</u>

NICE Community School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

	Special Revenue Funds	Capital Projects Fund	Total
REVENUES:			
Property taxes	\$ -	\$ 414,290	\$ 414,290
Other local sources	243,071	13,696	256,767
State sources	16,384	-	16,384
Federal sources	127,890	-	127,890
Other	4,908	-	4,908
TOTAL REVENUES	392,253	427,986	820,239
EXPENDITURES:			
Supporting services	541,069	-	541,069
Community services	500	-	500
Debt service:			
Principal	-	28,262	28,262
Interest	-	9,333	9,333
Capital outlay	-	346,818	346,818
Other	-	436	436
TOTAL EXPENDITURES	541,569	384,849	926,418
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(149,316)	43,137	(106,179)
OTHER FINANCING SOURCES (USES):			
Transfers from other funds	142,200	-	142,200
TOTAL OTHER FINANCING SOURCES (USES)	142,200	-	142,200
NET CHANGE IN FUND BALANCE	(7,116)	43,137	36,021
Fund Balance, July 1	71,857	172,801	244,658
FUND BALANCE, JUNE 30	\$ 64,741	\$ 215,938	\$ 280,679

NICE Community School District
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2006

	Hot Lunch Fund	Athletics Fund	Scholarships Fund	Total
ASSETS:				
Cash and equivalents	\$ 53,566	\$ 1,027	\$ 6,195	\$ 60,788
Investments	-	-	42,708	42,708
TOTAL ASSETS	<u>\$ 53,566</u>	<u>\$ 1,027</u>	<u>\$ 48,903</u>	<u>\$ 103,496</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 8		\$ -	\$ 8
Due to other funds	37,720	1,027	-	38,747
TOTAL LIABILITIES	<u>37,728</u>	<u>1,027</u>	<u>-</u>	<u>38,755</u>
FUND BALANCES:				
Reserved:				
Scholarships and endowments	-	-	48,903	48,903
Unreserved	15,838	-	-	15,838
TOTAL FUND BALANCE	<u>15,838</u>	<u>-</u>	<u>48,903</u>	<u>64,741</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,566</u>	<u>\$ 1,027</u>	<u>\$ 48,903</u>	<u>\$ 103,496</u>

NICE Community School District
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

	Hot Lunch Fund	Athletics Fund	Scholarships Fund	Total
REVENUES:				
Other local sources	\$ 153,280	\$ 87,461	\$ 2,330	\$ 243,071
State sources	16,384	-	-	16,384
Federal sources	127,890	-	-	127,890
Other	-	4,908	-	4,908
TOTAL REVENUES	297,554	92,369	2,330	392,253
EXPENDITURES:				
Supporting services	306,500	234,569	-	541,069
Community services	-	-	500	500
TOTAL EXPENDITURES	306,500	234,569	500	541,569
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,946)	(142,200)	1,830	(149,316)
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	-	142,200	-	142,200
TOTAL EXPENDITURES	-	142,200	-	142,200
NET CHANGE IN FUND BALANCE	(8,946)	-	1,830	(7,116)
Fund Balance, July 1	24,784	-	47,073	71,857
FUND BALANCE, JUNE 30	\$ 15,838	\$ -	\$ 48,903	\$ 64,741

**NICE Community School District
Hot Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Federal aid:			
Entitlement payments	\$ 110,000	\$ 111,110	\$ 1,110
Donated commodities	-	16,780	16,780
State aid:			
Entitlement payments	15,000	16,384	1,384
Student lunches	77,500	73,770	(3,730)
Adult lunches	305	128	(177)
Ala carte sales	85,000	78,200	(6,800)
Interest earned	300	1,182	882
Miscellaneous	-	-	-
TOTAL REVENUES	<u>288,105</u>	<u>297,554</u>	<u>9,449</u>
EXPENDITURES:			
Salaries	94,028	100,475	(6,447)
Fringe benefits	50,000	44,279	5,721
Other costs and expenses	8,577	13,658	(5,081)
Food and milk	135,500	130,989	4,511
Donated commodities	-	16,780	(16,780)
Capital outlay	-	319	(319)
TOTAL EXPENDITURES	<u>288,105</u>	<u>306,500</u>	<u>(18,395)</u>
EXCESS REVENUES (EXPENDITURES)	-	(8,946)	(8,946)
OTHER FINANCING SOURCES:			
Transfer from other funds	-	-	-
Transfer to other funds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	(8,946)	(8,946)
Fund Balance, July 1	<u>24,784</u>	<u>24,784</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 24,784</u></u>	<u><u>\$ 15,838</u></u>	<u><u>\$ (8,946)</u></u>

**NICE Community School District
Athletics Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Ticket sales	\$ 32,800	\$ 38,732	\$ 5,932
Family passes	11,500	12,218	718
Tourney receipts	-	5,239	5,239
Pay to play fees	28,500	31,272	2,772
Miscellaneous	4,000	4,908	908
TOTAL REVENUES	76,800	92,369	15,569
EXPENDITURES:			
Salaries	142,106	140,922	1,184
Fringe benefits	38,052	35,240	2,812
Purchased services	18,222	15,767	2,455
Supplies and materials	-	569	(569)
District tourney	-	2,265	(2,265)
Capital outlay	4,470	12,992	(8,522)
Other	22,190	26,814	(4,624)
TOTAL EXPENDITURES	225,040	234,569	(9,529)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(148,240)	(142,200)	6,040
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	140,000	142,200	2,200
TOTAL OTHER FINANCING SOURCES (USES)	140,000	142,200	2,200
NET CHANGE IN FUND BALANCE	(8,240)	-	8,240
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	\$ (8,240)	\$ -	\$ 8,240

**NICE Community School District
Capital Projects - Sinking Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ 390,000	\$ 414,290	\$ 24,290
Interest income	2,000	3,598	1,598
Other local sources	7,000	10,098	3,098
TOTAL REVENUES	399,000	427,986	28,986
EXPENDITURES:			
Debt Service:			
Principal	27,000	28,262	(1,262)
Interest	11,000	9,333	1,667
Capital outlay	340,000	346,818	(6,818)
Other	500	436	64
TOTAL EXPENDITURES	378,500	384,849	(6,349)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	20,500	43,137	22,637
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	-	-	-
Transfer to other funds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	20,500	43,137	22,637
Fund Balance, July 1	172,801	172,801	-
FUND BALANCE, JUNE 30	\$ 193,301	\$ 215,938	\$ 22,637

NICE Community School District

Ishpeming-Negaunee-NICE Community Education Division

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Federal Sources:			
Grants - restricted - received through State:			
Adult Basic Education	\$ 29,600	\$ 29,600	\$ -
Karl Perkins grant	<u>6,000</u>	<u>4,173</u>	<u>(1,827)</u>
Total Federal Sources	<u>35,600</u>	<u>33,773</u>	<u>(1,827)</u>
State Sources:			
Payment received from other school districts:			-
Adult Membership Aid	24,700	78,776	54,076
Student Membership Aid	203,000	175,244	(27,756)
Vocational Education	<u>7,000</u>	<u>9,787</u>	<u>2,787</u>
Total State Sources	<u>234,700</u>	<u>263,807</u>	<u>29,107</u>
Local Sources:			
Adult and student tuition	70,000	68,539	(1,461)
Earnings from investments and deposits	5,000	7,701	2,701
Other local revenue	<u>2,500</u>	<u>1,311</u>	<u>(1,189)</u>
Total Local Sources	<u>77,500</u>	<u>77,551</u>	<u>51</u>
Other Governmental Units:			
Transfers from other governmental units	<u>11,300</u>	<u>14,574</u>	<u>3,274</u>
Total Other Governmental Units	<u>11,300</u>	<u>14,574</u>	<u>3,274</u>
TOTAL REVENUES	<u>359,100</u>	<u>389,705</u>	<u>30,605</u>
EXPENDITURES:			
Instruction:			
Added Needs:			
Vocational Education			
Salaries	3,000	658	2,342
Fringe benefits	734	132	602
Supplies and materials	<u>3,266</u>	<u>4,621</u>	<u>(1,355)</u>
Total Vocational Education	<u>7,000</u>	<u>5,411</u>	<u>1,589</u>
Adult/Continuing Education:			
Secondary			
Salaries	161,128	144,400	16,728
Fringe benefits	46,954	38,877	8,077
Purchased services	41,800	26,557	15,243
Supplies and materials	<u>15,100</u>	<u>12,902</u>	<u>2,198</u>
Total Secondary Education	<u>264,982</u>	<u>222,736</u>	<u>42,246</u>

NICE Community School District

Ishpeming-Negaunee-NICE Community Education Division

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
Adult Enrichment			
Salaries	\$ 22,450	\$ 20,656	\$ 1,794
Fringe benefits	4,174	3,204	970
Purchased services	2,500	1,821	679
Supplies and materials	1,100	825	275
Total Adult Enrichment	30,224	26,506	3,718
Student Enrichment			
Salaries	21,025	13,930	7,095
Fringe benefits	1,632	3,269	(1,637)
Purchased services	2,500	2,559	(59)
Supplies and materials	1,600	3,126	(1,526)
Total Student Enrichment	26,757	22,884	3,873
Summer Program			
Salaries	16,530	5,842	10,688
Fringe benefits	1,632	1,109	523
Purchased services	2,000	1,509	491
Supplies and materials	3,800	2,041	1,759
Total Summer Program	23,962	10,501	13,461
TOTAL INSTRUCTION	352,925	288,038	64,887
Supporting Services:			
Pupil Services:			
Salaries	10,436	13,528	(3,092)
Fringe benefits	864	1,046	
Total Pupil Services	11,300	14,574	(3,092)
School Administration:			
Salaries	31,896	34,188	(2,292)
Fringe benefits	12,302	7,344	4,958
Purchased services	14,200	15,434	(1,234)
Supplies and materials	3,300	3,814	(514)
Total School Administration	61,698	60,780	918
Operations & Maintenance			
Salaries	500	795	(295)
Purchased services	1,300	1,429	(129)
Supplies and materials	1,100	111	989
Total Operations & Maintenance	2,900	2,335	565
TOTAL SUPPORTING SERVICES	75,898	77,689	(1,609)

NICE Community School District

Ishpeming-Negaunee-NICE Community Education Division

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Capital Outlay	\$ 6,000	\$ 2,171	\$ 3,829
Depreciation	<u>13,500</u>	<u>10,257</u>	<u>3,243</u>
TOTAL EXPENDITURES	<u>448,323</u>	<u>378,155</u>	<u>70,350</u>
NET CHANGE IN FUND BALANCE	<u>(89,223)</u>	<u>11,550</u>	<u>100,955</u>
Fund Balance, July 1	<u>297,922</u>	<u>297,922</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 208,699</u></u>	<u><u>\$ 309,472</u></u>	<u><u>\$ 100,955</u></u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the remaining aggregate fund information of NICE Community School District as of and for the year ended June 30, 2006 which collectively comprise NICE Community School District's financial statements and have issued our report thereon dated August 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NICE Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NICE Community School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in a separate report to management letter dated August 23, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NICE Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate report to management letter dated August 23, 2006.

This report is intended for the information of NICE Community School District, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 23, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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NICE Community School District

Report to Management Letter

For the Year Ended June 30, 2006

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the NICE Community School District, Ishpeming, Michigan as of and for the year ended June 30, 2006 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect NICE Community School District's ability to initiate, record, process, and report financial data consistent with the assertions of managements in the financial statements. We also noted certain instances of non compliance that are required to be reported under Government Auditing Standards.

Reportable Conditions

Management Approvals

We selected forty (40) transactions in each of the accounts payable disbursements and the employee payroll systems. In our review we noted one (1) instance in each of the samples contained a event in which the necessary approvals were lacking. Although further review determined these to be plain oversight in nature, we suggest greater care be taken in the approval function of the system of internal control.

Student Activity Funds – Middle School

The detail of the individual groups in the aggregate is not in agreement with the corresponding bank account balance. We suggest and good internal control dictates the underlying data should be reconciled to the respective control account.

Instances of Non-Compliance

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The main purpose of P.A. 621 was to require that all local units of government adopt balanced budgets to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

Board of Education
NICE Community School District
Ishpeming, Michigan 49841

Local units of government must adopt a budget.

1. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
2. The budget must be amended when necessary.
3. Debt shall not be entered into unless the debt is permitted by law.
4. Expenditures shall not be incurred in excess of the amount appropriated.
5. Expenditures shall not be made unless authorized in the budget.
6. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedure shall be filed with the State Treasurer and reported to the Attorney General.

During the year, the School District generally conformed with the act except in the following instances:

Expenditures exceeded budget levels in certain categories in various School District funds for which budgets were adopted. A listing of the funds in which this has occurred is as follows:

	<u>Excess Expenditures/Expenses</u>
Special Revenue Funds:	
Food Service Activities	\$18,395
Athletic Activities	9,529
Capital Projects	6,349

We remind the School Board of the provisions of P.A. 621 and recommend in the future, practices be refined and more closely monitored to conform to the Act.

Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls. We appreciate the cooperation and courtesy extended to us by the District's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

This report is intended solely for the information and use of NICE Community School District.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 23, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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August 23, 2006

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

We have audited the basic financial statements of NICE Community School District for the year ended June 30, 2006, and have issued our report thereon dated August 23, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 19, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies adopted by the School District are described in Footnote A. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the School District and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants